MFG Advice

Preparing for EOFY 2020

The end of financial year is fast approaching so now is the last chance for tax planning strategies to be put in place. We've prepared the following information on a range of opportunities for people improve their financial position in preparation for the end of financial year.

Tax tips

Low and Middle income tax offset:

The low and middle income tax offset provides $255 up to $1080, depending on how much you're earning. Your eligible for the LMITO if your income is at or below $126,000.

Working from home expenses in COVID 19

There are three methods for claiming working from home expenses. A special new arrangement will allow people to claim a rate of 80 cents per hour for all their running expenses, instead of calculating costs for specific running expenses as taxpayers would under normal circumstances.

Multiple people living in the same house can claim this new rate individually, and it is no longer a requirement to have a dedicated work from home area in order to claim.

Small business Instant asset write-off

From 12 March 2020, the instant write-off threshold increased from $30,000 to $150,000.

It has also been broadened and will be available to businesses with an annual turnover of up to $500 million for the current financial year (an increase from $50 million). This applies to new or second-hand assets used or installed ready for use by 30 June 2020. The increased write-off threshold has now been extended and will apply on a per asset basis until 31 Dec 2020.

Accelerated depreciation

Accelerated depreciation of 50% applies to eligible assets until 30 June 2021. Eligible assets are those acquired after 12 March 2020 and are used or installed ready for use by 30 June 2020. However, it does not apply to second-hand assets, building or other capital works deductible under separate tax provisions. This concession will be available to business with aggregated turnover of less than $500 million.

Deferring income

Sole traders and small businesses may consider deferring income, where appropriate, into the new financial year to minimise tax. Talk to your tax agent about the business financials to determine if this is right for you.

Employer cash flow boost

As part of the COVID 19 government stimulus package, eligible businesses and not-for-profit (NFP) organisations who employ staff will receive between $20,000 to $100,000 in cash flow boost amounts by lodging their activity statements up to the month or quarter of September 2020.

JobKeeper

The JobKeeper Payment scheme is a temporary subsidy for businesses significantly affected by coronavirus (COVID-19). Eligible employers, sole traders and other entities can apply to receive $1,500 per eligible employee per fortnight.

Superannuation

Reviewing personal taxable income for the year to date, together with super contributions is a good way to minimise tax and increase retirement savings.

Concessional contributions

Super members can contribute up to $25,000 as a concessional contribution (taxed at the fund rate of 15% rather than the personal highest MTR of 47%).

Deductible contributions

Since 1 July 2017 there is no need for a client to earn less than 10% of income from employment to be eligible to make a super contribution to claim a tax deduction. This means that all tax paying individuals have the opportunity too claim a tax deduction for personal contributions made to super, regardless of whether they are supported by an employer for super purposes or not.

Members still need to meet the work test for the current financial year and the super balance is within 1.6 million.

A notice of intent to claim a tax deduction must be lodged to convert the contribution to concessional.

In respect of deductible superannuation contributions, extra care needs to be taken when the individual plans to commence a pension, as current legislation prevents an individual from claiming a tax deduction when the trustee has begun paying an income stream. Even if the client has only commenced a partial income stream and effectively retained the contribution in accumulation.

'Catch up' concessional contribution provision

This provision allows any individual that is eligible to make concessional contributions but does not use their entire $25,000 limit to carry forward their unused cap space into the following financial year, provided that their Total Superannuation Balance (TSB) is less than $500,000 at 30 June.

Catching up!

The following example provides a general illustration of how the catch-up concessional contribution provision may operate in practice.

	Financial year		
	2018/19	2019/20	2020/21
Concessional contributions	$8,000	$10,000	$12,500
Concessional cap	$25,000	$25,000	$25,000
Unused cap space	$17,000	$15,000	$12,500
Cumulative concessional cap space	$17,000	$32,000	$44,500

For clients whose TSB is less than $500,000 at 30 June, be sure to review their eligibility to make catch-up contributions.

Contribution splitting

Contribution splitting allows an individual to split up to 85% of their concessional contributions to their spouse. In order to be eligible to receive the contribution, the recipient must not have satisfied a retirement condition of release.

Generally an individual will need to wait until the EOFY to make an election to split contributions.

Benefits are:

- Age pension
  Where an individual is in receipt of an age pension benefit, contribution splitting to a younger spouse may enable them to qualify for a higher pension, particularly if the younger spouse is below their age pension qualification age (when their accumulation benefits are not subject to means testing).
- Early access

  Contribution splitting to an older spouse may facilitate earlier access to superannuation benefits, where the recipient is likely to satisfy a condition of release first.

Spouse contribution tax offset

If the assessable income of a spouse or partner is below $40,000 in a financial year, an individual can claim a tax offset if they decide to make a superannuation contribution on their behalf.

Subject to the criteria, the individual may be able to claim an 18% tax offset on super contributions up to $3,000 that are made on behalf of their spouse. The maximum $540 tax offset is available to an individual if their spouse receives $37,000 or less in assessable income. The tax offset is progressively reduced until it reaches zero for spouses who earn $40,000 or more in assessable income within a financial year.

Superannuation co-contribution

If an individual has ‘total’ income below $53,564 and makes a personal contribution to a complying superannuation fund, they may be eligible for a matching benefit of up to 50% of the contribution amount (up to a maximum of $500).

Non-concessional contributions

As a consequence of COVID 19, individuals should review their total super balance (TSB)s in the lead up to 30 June. If large investment losses have brought about a significant reduction to their TSB, it could be an opportunity for members to make a non-concessional contribution to their superannuation fund.

People who were 64 years of age on 1 July 2019 should review their super to consider making further non-concessional contributions, because for these individuals, the 2019/20 financial year will their final opportunity to utilise the bring forward provision.

Early release of super

People in financial distress because of the Coronavirus and who meet certain eligibility conditions, are be able to access up to $10,000 of their super before 30 June 2020, and an additional $10,000 from 1 July until 24 September 2020.

To be eligible, you must meet one of the following conditions:

- you’re unemployed
- you’re eligible to receive Jobseeker Payment, Youth Allowance (jobseekers), Parenting Payment, Special Benefit or Farm Household Allowance
- on or after 1 January 2020, you were made redundant, your hours of work reduced by at least 20%, or if you’re a sole trader, your business was suspended or your turnover reduced by at least 20%.

Income streams

Drawdown rates

For people approaching or in retirement there is a temporary reduction in the minimum annual drawdown amount for super income streams. The reduction in the minimum drawdown rates will apply for this financial year and the 2020/21 financial year. This is positive for people who want to minimise their draw down on their retirement savings while markets are low.

The new minimum drawdown rates are:

Age	Minimum pension payments	
	Current	New
Less than 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 +	14%	7%

Pension refresh

A pension refresh basically involves commuting the full value of an account-based pension back to accumulation, then starting a new account-based pension with a larger amount by incorporating part or all of the accumulation balance.

The benefits are:

- Tax-free
  It may give individuals an opportunity to have a greater portion of their overall superannuation benefits invested within the tax-free confines afforded to account-based pensions.
- Age pension
  A pension refresh may lead to a more favourable age pension benefit for individuals who are being means tested under the income test.

If an individual has an account-based pension that was established before 1 January 2015 and they received (and continue to receive) income support payments immediately before that date, then the income test rules that applied on 31 December 2014 continue to apply. That is, these pensions are 'grandfathered', meaning that a non-assessable portion (deductible amount) offsets the pension income, reducing the amount counted.

Refreshing an account-based pension will cause a grandfathered pension to cease, meaning that the new pension will be subject to deeming for the purpose of the income test.

It may also be beneficial for age pensioners who qualify for an age pension benefit under the income test and are drawing a reasonably high level of income (relative to the pension account balance). In this instance, the deductible amount assessed under the income test will likely be higher than the corresponding deeming rate which would otherwise apply.

Not so refreshing!

Unfortunately for those individuals who were forced to commute part of their account-based pension prior to 1 July 2017, when the $1.6 million limit imposed by the TBC was brought into effect, the recent losses suffered throughout the COVID-19 pandemic will not present an opportunity for them to top up the difference with funds in their accumulation account, despite the likelihood that they may have less than $1.6 million in their transfer balance account.

As a consequence, refreshing their account-based pension may cause them to exceed their transfer balance cap, a situation they would most certainly want to avoid.

MFG Advice acknowledges the following sources:

- https://treasury.gov.au/sites/default/files/2020-03/Overview-Economic_Response_to_the_Coronavirus_0.pdf
- Media release 'Statement by Philip Lowe, Governor Monetary Policy Decision', RBA, https://www.rba.gov.au/media-releases/2020/mr-20-08.html
- 'Evaluating EOFY opportunities for superannuation', Kaplan Professional, 2020

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